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USSR
Weekly Review

Supplement
17 November 1977

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USSR: Industry's Nine-Month Report Card--No Improvement

Soviet industrial production in the first nine months of 1977 continued to grow at the same sluggish pace posted at midyear, according to statistics recently released by the Central Statistical Administration. The persistent slump in production of industrial materials and machinery suggests that the total annual increase in industrial production will fall below 5 percent for the second consecutive year, mainly due to continuing problems of low productivity, rising resource costs, and delays in bringing new capacity on stream.

Among industrial materials, the output of ferrous metals has stagnated at near 1976 levels--the result of inadequate investment in steelmaking facilities and insufficient supplies of high quality raw materials. A steady decline in the quality of Soviet iron ore has forced the diversion of investment funds from steelmaking plants to ore mining and ore beneficiating projects.

Tight supplies of iron ore have hampered production of pig iron. Scrap, the other major steelmaking ingredient, is also in short supply. A high pressure campaign was launched earlier this year to ensure that industrial enterprises meet their quotas for turning in scrap. In one instance, an official suggested that new machinery be turned in as scrap rather than risk underachieving this goal. In another case, machinery imported several years ago, but never installed or used, was turned in as scrap. Continued stagnation in Soviet steel production could force additional imports of steel, thus exacerbating an already taut hard currency position, or create bottlenecks in construction and machinery production.

Energy producing branches have experienced declining rates of growth this year. The growth in electric power has fallen to an unprecedented low (3.6 percent).

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Growth rates for crude oil and natural gas, while in line with the current plan, also have dropped below the comparable period a year ago.

Recognizing that slower growth in oil production probably is in the cards for the next few years, Moscow has initiated a stringent fuel allocation program. As early as June 1976, the Council of Ministers ordered a 3 percent reduction in fuel consumption nationwide for the last half of 1976. Only agriculture and locomotive production were exempt. Although firm evidence is lacking, it appears that this decree was extended and perhaps even strengthened during 1977. [redacted]

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The total effect of these cuts on overall economic performance is not known. However, fuel shortages have occurred in many regions of the USSR and have, to some degree, hampered operations of the highest priority: oil drilling, natural gas exploration, gold production, crop harvesting, and construction.

Other branches producing industrial materials also have contributed to the slow overall growth of industry. For example, chemicals, one of the prime growth industries, failed to meet the plan for sulfuric acid and a potential exists for year-end shortfalls in other products, such as mineral fertilizer and plastics, mainly because of delays in the introduction of new capacity.

The growth of machinery output, which dipped below midyear rates, may fall even further by year's end if problems in producing ferrous metals continue. The 8-percent drop in diesel locomotive production and the downturn in freight car production could exacerbate the problems of an already overtaxed industrial supply network. [redacted]

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Only consumer nondurables production has shown significant improvement over last year, buoyed by the nearly 7-percent rebound in the output of processed food. Despite the surge, total output of processed food is only 3 percent above the 1975 level. Meat production is up nearly 13 percent from last year, but sustaining this rate through the rest of 1977 would still result in a level of output below the 1975 peak.

Given the lackluster performance in 1976 and thus far this year, we doubt that Soviet industry has sufficient vitality to achieve the goals of the current five-year plan. Even though the growth goal of the Tenth Five-Year Plan (1976-80)--6.3 percent per year--appears modest in contrast with that of the Ninth Five-Year Plan (1971-75)--8.0 percent per year--Soviet industrial output must accelerate substantially (7.7 percent per year) in the remaining three years if the goals of the Tenth Five-Year Plan are to be realized.

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